1996/97 Abandonment Fund Annual Report

November 1997

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Covering Letter

Report

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To: All Oil, Gas and Oil Sands Operators

1996/97 ABANDONMENT FUND ANNUAL REPORT

Enclosed is a copy of the 1996/97 annual report for the Abandonment Fund as approved by the Fund Advisory Committee (FAC). The Abandonment Fund, which is funded by a levy on inactive wells, is a key component of the province's program to identify and abandon existing orphan wells and to prevent future occurrences.

The Fund, while still developing, allows essential resources and liability management to be done with industry's dollars. Under the stewardship of the FAC, the Fund continues to serve as an outstanding example of industry/regulator co-operation. Questions or comments regarding the report may be directed to Mr. Bob Willard, Corporate Compliance Group Leader, EUB Facilities Division, at (403) 297-8572.

Yours truly,

<signed by>	*<signed by>*	*<signed by>*
C. Belanger	D.J. Manning, Q. C.	Paul Gagnon
Chair, EUB	President, CAPP	Chair, SEPAC

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INTRODUCTION

The Abandonment Fund is part of a unique, successful and ongoing joint liability management initiative of the Alberta Energy and Utilities Board (EUB), Canadian Association of Petroleum Producers (CAPP), the Small Explorers and Producers Association of Canada (SEPAC), Alberta Environmental Protection (AEP) and Alberta Department of Energy.

The Fund was created to pay an orphaned working interest participant's share of the cost to abandon a well. An orphaned working interest is where no responsible party exists to fulfill the abandonment obligation. In most cases, this is determined at the conclusion of EUB enforcement actions against the party or parties involved. Two case studies are presented at the end of this report illustrating the orphan well prevention activities carried out in support of the Orphan Well Program and Abandonment Fund. These case studies were chosen because they are representative of the typical issues, situations and circumstances from which orphan wells evolve.

Fiscal 1996/97 represents the fifth year of Fund operation, which is financially supported by a levy on inactive wells, by first time licensee fees and by interest earned. The Fund is a key component of the province's program to both identify and abandon existing orphan wells and prevent future occurrences. The Fund is also finalizing its expansion plans to include abandoning and decommissioning most types of

pipelines and facilities, and the subsequent site decontamination and reclamation.

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KEY EVENTS OF 1996/97

Fund Revenue & Profile Review

During fiscal year 1996/97, the Fund collected $2,591,497 from the annual levy on inactive wells in the province. This total accrued from a $90 per well levy, including applicable penalties. The EUB issued final "Notices to Pay," with penalties to 140 companies not paying the abandonment levy on time. Subsequent failure to pay the levy resulted in increasing enforcement action against 17 companies.

Corporate profile reviews were completed and approvals granted on 101 first-time licensee applications, which included the collection of $1,010,000 first-time licence fees. In addition, reviews were completed or are ongoing on approximately 250 updated corporate profiles.

Orphan Well Abandonments

The Abandonment Fund initiated or is completing downhole abandonment operations at 28 orphan wells. The average abandonment cost was approximately $62,700 per well with an abandonment dollar cost range of $2,500 to $378,984. The program continues to provide ongoing care and custody at 11 orphan well sites, and there was one reclamation pilot project. These operations are carried out to ensure public safety and/or environmental protection. During fiscal 1996/97, the Fund made expenditures totalling $1.987 million for various work including maintenance and/or abandonment operations on these 39 wells and one reclamation project. (See Schedule of Abandonment Operations by Property.)

At fiscal year end, March 1997, there were a total of 30 non-abandoned orphan wells which fall under the domain of the Abandonment Fund. The Fund's Peer Review Group which adjudicates the identification and designation of orphan wells dealt with 24 files, resulting in a total of 66 new orphan wells being identified. These wells will now fall under the mandate of the Abandonment Fund for future action. This brings to 96 the number of wells now awaiting future action. To date, from its inception in 1992 a total of 155 orphan wells have been properly abandoned under the auspices of the Fund.

Key Events Summary Chart

Number of Orphan Wells Abandonments Initiated/Completed	Number of Orphan Wells with Special Ongoing Care	Expenditures on 39 Orphan Wells	Total Number of Outstanding Orphan Wells at Year End in 1996/1997	Total Number of Orphan Wells Properly Abandoned Since 1992
28	11	$1.987 Million	96	155

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FUND SUPPORT & PROTECTION

A) Enforcement

The EUB's Enforcement Section, operating under its legislated mandate, is involved in a number of enforcement and compliance issues relating to the abandonment of wells. In fiscal 1996/97 the EUB issued 159 Abandonment Orders for 320 wells for reasons such as:

- Company no longer conducting business in Alberta (defunct company)
- Loss of the right to produce
- Inactive well audits
- Technical reasons
- Receiverships/insolvencies, and
- Expired mineral rights.

These actions were taken in association with an escalating enforcement ladder and reflect an unwillingness or inability of the operator to comply.

Outcomes as a result of these Abandonment Orders include:

- Abandonment of wells
- Reacquisition of mineral rights
- Transferring the well to a responsible operator
- Submission of abandonment deposits
- Wells were deemed orphans
- Wells require further enforcement and compliance action.

Thirteen cash reimbursement applications were approved for well abandonment costs for orphaned working interest owners totalling $130,612. (See attached list Wells with Cost Reimbursements.)

In 1996/97, the EUB also issued 207 Closure Orders for various non-compliance issues.

B) Well Transfers

Approximately 2,360 well licence transfer applications were processed, resulting in 10,986 well licence transfers and 7,560 well name changes. These figures are a substantial increase over 1995/96 (see table below). Approximately 619 pipeline licence transfer applications were processed, resulting in 2,129 licences being transferred. The continued application of the EUB's well licence transfer screening criteria and other corporate compliance requirements resulted in increased usage of the well abandonment deposit system. Deposits held on behalf of others totalled $2,647,163, an increase of $1,497,015 over last year's total.

	1994/95	1995/96	1996/97
Well Licence Transfers	9639	6442	10986
Well Name Changes	6387	3971	7560

C) Well Screening

The well screening ratio program is designed to identify high risk situations and support a reduction in the number of inactive wells in the province. The EUB audits a company's balance of active wells to inactive/suspended wells, requiring correction if the ratio is less than 0.5. Companies with a ratio of less than 0.5 are required to submit a well abandonment deposit.

The results of these 96/97 audits included:

- The submission of abandonment deposits of $673,880 for 68 wells
- Transfer of 62 wells
- Confirmed abandonment of 34 wells
- Resumed production of 81 wells
- There were 83 wells subject to corporate inactive well reduction programs to ensure a company well screening ratio greater than one. It is important to note that these programs are ongoing and are time dependent with subsequent non-compliance requiring the submission of abandonment deposits
- Forwarding 9 companies representing 27 wells to EUB Enforcement Section for further action
- Dropping 129 wells licensed to 36 companies from the review because of positive company well screening ratio changes, or the purpose of the wells were outside the petroleum industry, i.e. pulp & paper, chemical, educational.

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FUTURE ACTIVITIES

Expenditures

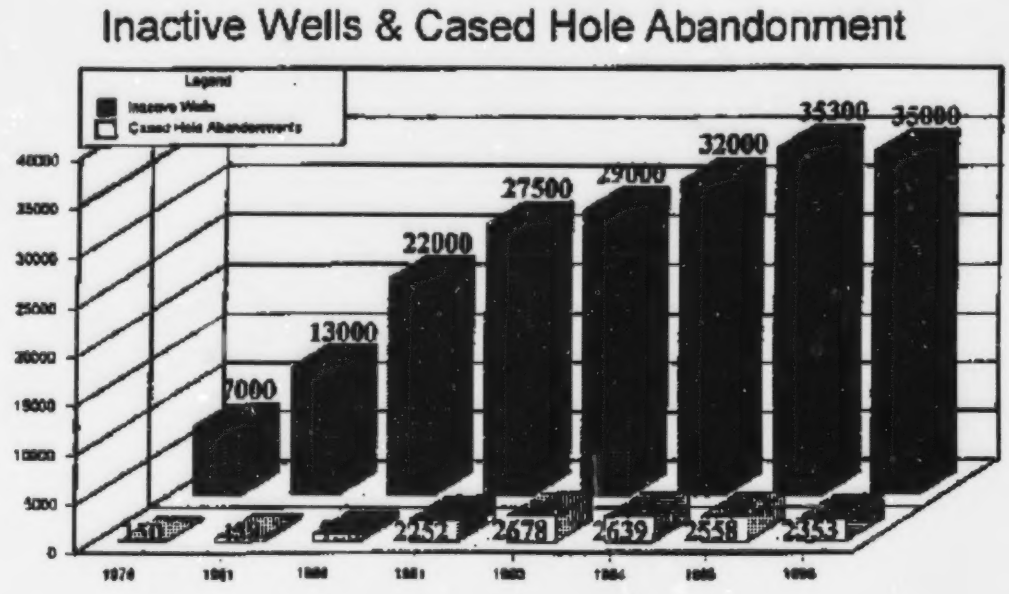
The 1997/98 budget is estimated to be $3.8 million (see attached 1997/98 Budget) which accounts for priority abandonment of approximately 23 orphan wells, pipelines and facilities initial reclamation work at 60 sites and the provision of ongoing unique care and custody at 11 wells.

Long Term Inactive Wells (LTIW)

A joint announcement was made by the EUB, CAPP and SEPAC in 1996 outlining the need for a program to review and substantively reduce the number of wells inactive for more than 10 years, and to minimize the

financial liability to the Abandonment Fund.

The "Long Term Inactive Well Program" is scheduled to commence in the fall of 1997. By the end of its five year period licensees will have to deal with all of their LTIW by placing wells in continuous production, abandonment or by making deposits. The EUB estimates there will be approximately 35,000 inactive wells in Alberta at program commencement (see chart). Of those, 10,000 wells will have been inactive for 10 or more consecutive years. An additional 7,000 more wells will fall into the 10-year category within the five year operating period of the program.



Orphan Program Expansion

The Facility, Pipeline & Reclamation Subcommittee completed its work towards expansion of the scope of the Abandonment Fund to include orphan facility and pipeline abandonments, and associated site, facility and pipeline reclamation.

The Fund will accelerate its augmented field operations following obtainment of an Order in Council authorizing expanded fund expenditures, and the recruitment of a Fund Manager. The EUB and AEP are proceeding with their study of operational surveillance and enforcement programs and regulatory changes to implement the expanded features of the orphan program.

Fund Support & Protection

The EUB will undertake an extensive re-engineering review of its existing processes and practices for Fund support and protection and the deposit system to optimize our efficient and effective administration of these programs in advance of orphan program expansion. An Interim Directive will be issued in fiscal 1997 which

will eliminate the instalment payment option when an abandonment deposit is required.

Proactive Regulatory Enforcement

The EUB has adopted a firm and fair escalating enforcement philosophy as part of its regulatory process. This pro-activity will ensure that the responsible licensee lives up to its regulatory and financial obligations in a timely manner which in turn protects the Fund by minimizing the number of new orphan wells and by reducing orphan expenditures.

Where necessary the EUB will continue with abandonment of non-orphan wells in serious noncompliance and initiate civil litigation procedures to recover costs. The EUB will investigate opportunities for civil actions outside of Alberta and Canada. The EUB and Alberta Environmental Protection (AEP) will review and coordinate their respective proactive enforcements for improved Fund protection and overall regulatory compliance.

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CONCLUSION

The Fund is important to the province because it addresses a significant liability, which would have otherwise fallen upon the shoulders of the Alberta tax payer. The past year saw significant expenditures and considerable effort by the members of the FAC regarding protection and, expansion activities. These activities will continue to grow in 1997/98.

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WELL ABANDONMENT FUND
SCHEDULE OF ASSETS, LIABILITIES AND FUND BALANCE
AS AT 31 MARCH 1997

	-------UNAUDITED------	
	1996/97	**1995/96**
ASSETS		
Cash and Short-Term Investments (Note 1)	$ 5,319,149	$ 3,672,124
Interest Receivable	49,284	64,898
Trade Receivable	84,165	-
	$ 5,452,598	$ 3,737,022

LIABILITIES AND FUND BALANCE

Trade Payable (Note 2)	$ 5	$ 178,714
Holdback Payable	2,085	50,423
	2,090	229,137
Fund Balance (Note 2)	5,450,508	3,507,885
	$ 5,452,598	$ 3,737,022

WELL ABANDONMENT FUND
SCHEDULE OF REVENUE AND EXPENDITURE
FOR THE YEAR ENDED 31 MARCH 1997

	UNAUDITED		
	1996/97 Actual	Budget	1995/96 Actual
Operating Revenue:			
Industry Levy	$ 2,591,497	$ 2,600,000	$ 1,501,473
Applications and Licences	1,010,000	500,000	740,000
Equipment Sales	213,389	-	53,830
Abandonment Recoveries	55,665	-	-
Working Interest Contributions (Note 2)	-	-	500
	3,870,551	3,100,000	2,295,803
Operating Expenditure:			
Abandonment Operations:			
Well Abandonment (Note 2)	1,986,131	1,285,000	1,884,724
Well Site Reclamation	1,350	1,485,000	12,733

Pipeline/Facilities Abandonment	-	-	-
	1,987,481	2,770,000	1,897,457
Working Interest Claims	130,612	500,000	261,959
Professional Fees	31,590	95,000	39,645
Blowout Insurance	3,655	30,000	12,768
	2,153,338	3,395,000	2,211,829
Operating Profit (Loss)	1,717,213	(295,000)	83,974
Other Revenue (Expenditure):			
Interest Revenue	226,113	300,000	276,983
Bad Debt Recovery (Expenditure)	-	(5,000)	6,770
Miscellaneous	(703)	-	(938)
Excess of Revenue Over Expenditure for the Year	1,942,623	-	366,789
Fund Balance at Beginning of Year	3,507,885	3,507,885	3,141,096
Fund Balance at End of Year (Note 2)	$ 5,450,508	$ 3,507,885	$ 3,507,885

WELL ABANDONMENT FUND
NOTES TO THE FINANCIAL SCHEDULES
31 MARCH 1997

Note 1 Funds Held on Behalf of Others

Funds Held on Behalf of Others has been reclassified from the Well Abandonment Fund to the Energy and Utilities Board Fund in recognition that the deposits are an enforcement action. This change in accounting policy was made with retroactive restatement resulting in the elimination of the Funds Held on Behalf of Others and a corresponding reduction of $2,547,163 (1996 $1,150,148) to Cash and Short-Term Investments.

Note 2 Prior Year Adjustments

The prior year comparative amounts have been restated to reflect the correction of two accounting errors:

i) A payment representing Funds Held on Behalf of Others was incorrectly taken into income. The effect of this restatement is a $15,000 reduction in 1996 Working Interest Contributions and a

corresponding reduction in 1996 year end Fund Balance.

ii) An invoice for abandonment operations was over expended. The effect of this restatement is a $20,590 reduction in 1996 Well Abandonment expenditures, a corresponding reduction in Trade Payable, and a corresponding increase in 1996 year end Fund Balance.

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WELL ABANDONMENT FUND
SCHEDULE OF ABANDONMENT OPERATIONS BY LOCATION
FOR THE YEAR ENDED 31 MARCH 1997

---------- UNAUDITED ----------

Description	FD Date	Expense	Revenue	Net Cost
PEACE RIVER (RELIEF WELL) NO. 1 (4-31-85-20W5)	1916	2,500	-	2,500
ALBERTA CLAY MEDHAT (15-29-12-5W4)	1911	8,219	-	8,219
ROGER JARVIE (7-15-63-2W5) (reclamation pilot project)	1986	1,350	-	1,350
CENERGY PROVOST (16-26-35-l0W4)	1975	-	(86)	(86)
PAR ET AL MEDHAT (8-9-9-7W4)	1981	-	(86)	(86)
MVA ET AL FERRIER (7-28-41-8W5)	1981	52,424	(11,667)	40,757
JOFFRE ET AL TROUT CREEK (12-26-12-lW5)	1981	30,151	-	30,151
JOFFRE ET AL SKARO (11-16-57-19W4)	1980	-	(5,588)	(5,588)
MIRACLE # 1 (2/11-4-19-2-W5)	1930	54,325	-	54,325
MIRACLE# 3 (3/11-4-19-2-W5)	1932	269,263	(3,160)	266,103
ARMSTRONG ET AL SUNSET (4-24-69-19W5)	1980	1,566	-	1,566
ICOR ET AL HOOLE (1-3-80-23W4)	1987	1,706	(2,861)	(1,155)
ICOR ET AL HOOLE (10-3-80-23W4)	1987	1,741	(2,861)	(1,120)
ICOR ET AL HOOLE (16-3-80-23W4)	1988	2,044	(2,861)	(817)
DICORE ET AL HOOLE (11-2-80-23W4)	1985	689	(3,861)	(3,172)

CLIFF KNAPPEN (15-2-1-11W4)	1965	36,294	(36,294)	-
FULTON ET AL KNAPPEN (9-10-1-11W4)	1972	11,776	(11,776)	-
FULCO CONLEY KNAPPEN (4-11-1-11W4)	1975	25,204	(25,204)	-
FULCO CONLEY KNAPPEN (7-15-1-11W4)	1972	11,160	(11,160)	-
AMROSS CONRAD (16-29-5-15W4)	1979	30,706	(23,381)	7,325
OKALTA NO. 22 (5/8-1-20-3-W5)	1945	192,481	(2,166)	190,315
STERLING PACIFIC # 1 (15-33-18-2-W5)	1930	12,204	-	12,204
BRITISH DOMINION # 3 (2/6-12-20-3-W5)	1931	378,984	(19,402)	359,582
ARGUS ET AL HORSEFLY (14-34-8-16W4)	1980	2,573	(2,573)	-
MIDFILED VERMILION (16-14-50-6W4)	1942	233,117	-	233,117
SERENA# 1 (9-25-50-6-W4)	1942	235,512	-	235,512
HUNTEX GAP WW (Fl/16-17-24-9W5/2)	1986	22,932	-	22,932
DEXX ET AL AERIAL (4-9-29-18W4)	1988	90,225	(2,435)	87,790
MANTICORE WILLGR (8-36-40-6W5)	1978	94,542	(13,433)	81,109
TANDARA GLEN PARK (2/10-1-49-27W4)	1986	42,820	(4,182)	38,638
ASTRALITE LEDUC (8-5-50-26W4)	1981	3,117	(1,000)	2,117
FRONTIER PLAZA IMP YEKAU (16-16-52-26W4)	1964	1,465	(1,000)	465
KAN-STATE LEGAL (11-35-57-25W4)	1981	11,467	(3,873)	7,594
PEX OTTER (6-33-87-12W5)	1983	24,021	(21,722)	2,299
PCI OTTER (14-33-87-12W5)	1984	23,942	(26,267)	(2,325)
MANTICORE BIGORAY (1-4-53-8W5)	1979	13,446	(806)	12,640
MANTICORE BIGORAY (3-4-53-8W5)	1979	22,370	(2,676)	19,694
MANTICORE BIGORAY (3-3-53-8W5)	1979	16,311	(9,676)	6,635
MANTICORE BIGORAY (8-3-53-8W5)	1977	24,834	(9,744)	15,090
SLOVENIA TURIN (6-35-10-18W4)	1976	-	(7,253)	(7,253)

	$ 1,987,481	$ (269,054)	$ 1,718,427

WELL ABANDONMENT FUND
WELLS WITH COST REIMBURSEMENTS
FOR THE YEAR ENDED 31 MARCH 1997

APPLICANT	WELL	DEFUNCT WORKING INTEREST	AMOUNT
Danoil Energy Ltd	100/12-35-042-01W4	Jagor Resources Ltd.	$12,360
American Trading & Production Corp.	100/06-18-040-19W4	Colwyn Oil & Gas Ltd.	$9,763
Danoil Energy Ltd.	102/06-35-042-01W4	Jagor Resources Ltd.	$15,566
Danoil Energy Ltd.	100/04-35-042-01W4	Jagor Resources Ltd.	$16,039
Northern Development/Regent Resources	100/01-23-056-22W4	L.P. Mann & Co. Ltd,	$14,528
Crestar Energy Inc.	102/10-20-001-11W4	Fulton Producing Co.	$4,406
Sceptre Resources Limited	100/06-06-060-25W4	Aegean Petroleums Ltd.	$4,030
Sceptre Resources Limited	100/06-06-060-25W4	Lobell Oil & Gas	$6,045
Sceptre Resources Limited	100/10-35-059-26W4	Turf Petroleum	$4,221
Amoco Canada Petroleum Company Limited	100/06-26-036-3W5	Rimrock Resources Inc.	$17,129
West-Can Hydrocarbon Fund Ltd.	100/06-29-044-16W4	Twin Richfield Oils Ltd.	$8,800
Danoil Energy Ltd.	102/12-35-042-01W4	Jagor Resources Ltd.	$8,527
Crestar Energy Inc. & Talisman Energy Inc.	100/06-35-001-11W4	Fulton Producing Co.	$9,198

TOTAL	$130,612

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WELL ABANDONMENT FUND
1997/98 BUDGET
7 February 1996

Note: Budgeted expenditures for the 1996/97 fiscal year end are shown for comparative purposes.

Budget Component	1997/98	1996/97 Budget
Well Abandonments	1,013,000	1,200,000
Associated Pipeline Abandonments	70,000	0
Battery Decommissioning	200,000	0
Site Reclamation	1,800,000	1,485,000
WIO Claims	400,000	500,000
WIO Searches	10,000	50,000
FAC/PRG Activities	10,000	20,000
Care & Custody	25,000	85,000
Cost Recovery Activity	50,000	25,000
EUB Reimbursement	50,000	0
Build Up Fund Reserve	0	0
Insurance	20,000	30,000
Bad Debt	2,000	5,000
Program Superintendent	150,000	0
Fund Accounting		
Total	**$3,800,000**	**$3,400,000**

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Prepared by: Enforcement Section, Corporate Compliance Group
Alberta Energy and Utilities Board (EUB)

CASE STUDY No. 1

Preface

The following case study illustrates the orphan well prevention activities that are carried out in support of the Orphan Well Program and Abandonment Fund. These activities strive to ensure regulatory compliance and thereby reduce the potential abandonment liability assumed by the Abandonment Fund. This case study was chosen because it is representative of the typical issues, situations and circumstances associated with the creation of orphan wells. The names of the companies involved in this case study have been changed for the purposes of this document.

Issue

In November 1995, the EUB commenced high level enforcement actions against Op Co problem company (Op Co). These actions originated with the EUB receiving notice from Alberta Energy that crown mineral leases had been cancelled for several of Op Co's wells. The EUB subsequently ordered the respective wells abandoned. Op Co did not comply with the abandonment orders.

At that time, Op Co was the licensee of record for 27 wells in total: 6 producing, 17 non-producing (23 non-abandoned) and 4 abandoned. The EUB was concerned with the abandonment liabilities and future disposition of all the wells given that Op Co had stated that it was winding up its business affairs in Alberta. Therefore, the EUB's enforcement actions focused on the entire inventory of Op Co wells to address the following outstanding issues within the EUB's jurisdiction:

- Breached abandonment orders.
- Wells sold but not transferred.
- Transfer criteria not met.
- Sold wells being operated without a well licence by third parties.
- Municipal authorities objecting to transfer applications.
- Inactive wells not in compliance and the required abandonment deposits not submitted.
- Company winding up its business affairs in Alberta.

The EUB was aware of other associated issues as follows:

- Surface reclamation not completed.
- Municipal taxes not paid.

Background

The disposition of the Op Co wells is discussed as follows. For ease of presentation, the previously mentioned 27 wells will be grouped according to the primary issue that existed at the time for each group. Please refer to the schedule of wells for the detailed outcome respecting each well.

- Group A consists of the original wells that were ordered abandoned for expired crown minerals. There were eight wells in this group (2 abandoned by the EUB, 5 abandoned by Op Co and 1 transferred). To enforce the abandonment orders, the EUB abandoned two of the wells plus the associated production facilities and salvaged all equipment. Op Co was ordered to pay costs which it did. The equipment salvage funds were held by the EUB pending the outcome of the disposition of all the Op Co wells. The two associated pipelines had not been historically transferred to Op Co and were still licensed in the name of Big Co#l. The EUB directed Big Co#1 to abandon the pipelines which it did. Op Co did thereafter abandon five of the wells and transfer one well to Big Co#2. The abandonment order was rescinded. Op Co alleged that it had previously sold five of the wells but was only able to execute the transfer of the one well to Big Co#2. The other companies, Us Co#l, Us Co#2 and Small Co#1 would not execute transfers.

- Group B consists of the wells which were alleged by Op Co to have been sold to third parties but not transferred. There were eight wells in this group including five of the six producing wells (all wells were transferred). The third party purchasers were Small Co#2 (3 producing wells), Small Co#3 (2 producing wells), Us Co#1 (2 wells, these wells were subsequently further sold to Small Co#4 and Med Co#l.) and Small Co#5 (I well, this well was subsequently further sold to Small Co#6). The EUB had issued a closure order shutting in all the producing wells.

  An objection to the closure order was received from Small Co#2 and an EUB hearing was scheduled. Extensive discussions resulted in Small Co#2 being permitted to continue producing subject to a portion of the production revenue being placed in trust with the EUB until such time as all Op Co wells proposed for transfer met the transfer criteria. The trust funds were returned to Small Co#2 one and a half years later when the transfer criteria were met and the wells were eventually transferred. Small Co#2 then withdrew its request for a hearing. Small Co#3 closed their wells until transferred. An objection to the transfer to Small Co#2 and Us Co#1 was received from the M.D. of Alberta#1. The M.D. withdrew its objection after Small Co#2, Small Co#4 and Med Co#1 addressed the M.D.'s outstanding taxes against Op Co.

- Group C consists of the wells audited by the EUB to ensure that all Op Co wells were addressed prior to the company winding up its business affairs in Alberta. There were seven wells in this group (3 wells transferred, 2 wells abandoned by Op Co and 2 wells with abandonment deposits). When Op Co failed to meet the requirements of the audit, the EUB issued abandonment orders to Op Co and its known working interest participants. One of the wells was another new crown mineral expiry. Op Co alleged that one of the wells had been previously sold to Small Co#7. However, the EUB did not transfer the well because Small Co#7 would not pay the required $1 0,000 first time licensee fee. The well was eventually transferred to Small Co#8 subject to an abandonment deposit which remains outstanding. Two wells were transferred to Small Co#9 and Bic, Co#3. Op Co abandoned two wells.

  Op Co remains the licensee of the two remaining wells. An abandonment order had been previously issued for these wells. With the filing of the abandonment deposits, Op Co was granted an extension to 31 December 1997 to either complete the abandonment or transfer the wells. Op Co requested the additional time to sell one of the wells because the original purchaser (Us Co# 1) did not follow through with the transfer.

- Group D consists of the four previously existing abandoned wells. The primary issue was the outstanding reclamation and certification of these abandoned well sites. Two of the wells had been historically sold but not transferred. The purchasers have committed to reclaim the sites. One site was already certified. Op Co has committed to reclaim the other site.

Status

Op Co is currently the licensee of 15 wells, 2 non-abandoned and 13 abandoned as compared to its original well count when enforcement commenced. The EUB has abandonment deposits for the 2 non-abandoned wells. Both wells have abandonment orders with a 31 December 1997 compliance date. Op Co requested and received an extension to the original compliance date to allow it time to sell the wells. The EUB will follow up on the abandonment orders if the wells are not sold. Alberta Environmental Protection, Land Reclamation Division has requested reclamation schedules from Op Co for the 12 uncertified abandoned well sites and will follow up on the reclamation and certification.

Key Messages

The following key messages from this case study identify the essential elements which serve to protect the Abandonment Fund's liability.

- The regulator must undertake proactive corporate compliance surveillance, effective corporate performance tracking, issuance of orders and enforcement as necessary.

- The industry must ensure wells are property transferred and abandonment deposits made in accordance with the transfer criteria. Responsibly address the future abandonment liability associated with the divested property.

- The regulator must effectively monitor and audit inactive wells to ensure technical compliance and collect abandonment deposits as necessary. The industry must take a proactive approach to reviewing its inactive wells and undertake abandonment programs specific to reducing its inactive well inventory.

- The regulator and industry must ensure that first time licensees meetthe requirements and are fully aware of their responsibilities.

- Enforcement can be very time consuming, entail a wide range of actions and coordination amongst the regulators and the affected industry participants. Effective and successful enforcement can result in considerable reduction to the potential abandonment liability. (The potential Op Co well abandonment liability when enforcement commenced was estimated at $306,000. 17 non producing wells X $18,000/well average cost. This does not include the associated reclamation costs which remain outstanding.)

	GROUP A: ORIGINAL CROWN MINERAL EXPIRIES (8 WELLS)
Well No. 1 (non producing)	Abandonment order No. AD 95-xxx issued. Alleged sale to Us Co#1. No transfer application was ever filed. Op Co abandoned the well after the EUB enforcement abandonment of the No. 7 and No. 8 wells. EUB released salvage funds directly to abandonment contractor to offset Op Co's abandonment costs. Site reclamation certification is still outstanding. AEP sent reclamation notice letter. AEP to follow up on Op Co's commitment to reclaim.
Well No. 2 (non producing)	Abandonment order No. AD 95-xxx issued. Alleged sale to Small Co#1. No transfer application was ever filed. Op Co abandoned the well. Site reclamation certification is still outstanding. AEP sent reclamation notice letter. AEP to follow up on Op Co's commitment to reclaim.
Well No. 3 (non producing)	Abandonment Order No. AD 95-xxx issued. Op Co abandoned the well. Site reclamation certification is still outstanding. AEP sent reclamation notice letter. AEP to follow up on Op Co's commitment to reclaim.
Well No. 4 (producing)	Closure Order No. C xxx issued. Abandonment Order No. AD 95-xxx issued. Minerals acquired by Big Co#2. Received transfer application. Well transferred to Big Co#2. Orders rescinded.
Well No. 5 (non-producing)	Abandonment Order No. AD 95-xxx issued. Op Co abandoned the well after the EUB enforcement abandonment of the No. 7 and No. 8 wells. EUB released salvage funds directly to abandonment contractor to offset Op Co's abandonment costs. Site reclamation certification is still outstanding. AEP sent reclamation notice letter. AEP to follow up on Op Co's commitment to reclaim.
Well No. 6 (non producing)	AS ABOVE
Well No. 7 (non producing)	Abandonment Order No. AD 95-xxx issued. Alleged sale to Us Co#2. Transfer application never filed. Op Co and Us Co#2 involved in litigation. EUB abandoned well/facility and salvaged equipment. The EUB directed Big Co#1 to abandoned the pipeline. Big Co#1 was the pipeline licensee of record. The pipeline had never been transferred to Op Co. EUB issued Abandonment Cost Orders No. ACO 96-xx and pursued debt enforcement. Op Co paid debt plus 25% penalty ($42,746.50 both wells). EUB retained salvage funds until all wells were abandoned ($57,360.19). Site reclamation certification is still outstanding. AEP sent reclamation notice letter and a follow up letter. AEP to follow up on Op Co's commitment to reclaim
Well No. 8 (non producing)	AS ABOVE

	GROUP B: WELLS SOLD AND TRANSFERRED TO OTHER PARTIES (8 WELLS)
Well No. 9 (non producing)	Original transfer application to Small Co#5. Application was not processed and was returned because Small Co#5 failed to meet the first time licensee requirements. A subsequent transfer application to Small Co#6 was filed. This application was not processed pending all Op Co wells being addressed. Well was eventually transferred to Small Co#6.
Well No. 10 (producing)	Closure Order No. C xxx issued. Alleged sale to Small Co#3. Original transfer application not processed and returned as incomplete for failure to meet the transfer requirements. Small Co#3 did not object to the closure order. Well was shut in. Subsequent transfer application to Small Co#3 was refiled. Transfer was approved after all Op Co wells were addressed. Closure order was rescinded.
Well No. 11 (producing)	AS ABOVE
Well No. 12 (producing)	Closure Order No. C xxx issued. Closure Order No. C xxx issued (this well only) for failure to comply with isolation packer test requirements. Alleged sale to Small Co#2. No transfer application had been filed. Small Co#2 objected to the closure order and requested a hearing. Hearing was postponed (eventually adjourned sine die) pending ongoing discussions with Small Co#2. These discussions resulted in Small Co#2 placing production revenue from the well into trust to satisfy the transfer abandonment deposit requirements for the remaining Op Co wells. EUB permitted the well to produce. Small Co#2 continued to deposit production revenue into the trust until a predetermined cap was reached. The deposit would not be returned until all Op Co wells had been addressed. A transfer application to Small Co#2 was subsequently filed. The M. D. of Alberta# 1 objected to the transfer respecting unpaid taxes. Objection was eventually withdrawn. Well was transferred to Small Co#2. Isolation packer test requirement complied with. Closure orders were rescinded.
Well No. 13 (producing)	AS ABOVE
Well No. 14 (producing)	AS ABOVE
Well No. 15 (non producing)	Original transfer application to Us Co# 1. The application was not processed pending all Op Co wells being addressed. Subsequent transfer application to Med Co# 1. The M. D. of Alberta# I objected to the transfer respecting unpaid taxes. Objection was eventually withdrawn. Well was transferred to Us Co#1 and then immediately to Med Co#1.
Well No. 16 (non producing)	Original transfer application to Us Co#1. The application was not processed pending all Op Co wells being addressed. Subsequent transfer application to Small Co#4. The M D. of Alberta# 1 objected to the transfer respecting unpaid taxes. Objection was eventually withdrawn. Well was transferred to Us Co#1 and then immediately to Small Co#4.

	GROUP C: EUB INACTIVE WELL AUDIT OF REMAINING WELLS (7 WELLS)
Well No. 17 (non producing)	EUB inactive well audit, Abandonment Order No. AD 96-xx issued (closure and abandonment). Order included working interest owners Big Co#3, Big Co#4 and Big Co#5, Alleged sale to Small Co#10. Requested and received $30,000 abandonment deposit (Op Co $10,965, Big Co#3 $10,965, Big Co#5 $2,445, Big Co#4 $5,625) Subsequent transfer application to Big Co#3. Well transferred to Big Co#3. Abandonment order rescinded.
Well No. 18 (non producing)	EUB inactive well audit. Abandonment Order No. AD 96-xx issued (closure and abandonment). Requested and received $18,200 abandonment deposit Amended order to 31 December 1997 compliance date to transfer or abandon. EUB to follow up.
Well No. 19 (non producing)	EUB inactive well audit. Abandonment Order No. AD 96-xx issued (closure and abandonment). Alleged sale to Us Co#l. No transfer application filed. Requested and received $9,200 abandonment deposit. Amended order to 31 December 1997 compliance date to transfer or abandon. EUB to follow up.
Well No. 20 (non producing)	EUB inactive well audit. Abandonment Order No. AD 96-xx issued (closure and abandonment). New crown mineral expiry. Op Co abandoned the well. EUB released salvage funds directly to abandonment contractor to offset Op Co's abandonment costs. Site reclamation certification is still outstanding. AEP sent reclamation notice letter. AEP to follow up on Op Co's commitment to reclaim.
Well No. 21 (non producing)	EUB inactive well audit. Abandonment Order No. AD 96-xx issued (closure and abandonment). Order included working interest owners Small Co# 1, Big Co#6 and Big Co#7. Op Co and working interest owners abandoned the well. EUB released salvage funds directly to abandonment contractor to offset Op Co's abandonment costs. Site reclamation certification is still outstanding. AEP sent reclamation notice letter. AEP to follow up on Op Co and working interest owner's commitment to reclaim.
Well No. 22 (non producing)	EUB inactive well audit. Abandonment Order No. AD 96-xx issued (closure and abandonment). Alleged sale to Small Co#7. Subsequent sale to Small Co#8. Original transfer application to Small Co#7 was deficient and returned unprocessed because Small Co#7 failed to meet the first time licensee requirements. Subsequent transfer application to Small Co#8 . First time licensee fee ($ 10,000) for Small Co#8 was eventually paid. Transferred to Small Co#8. Well was deleted from abandonment order. Small Co#8 proposed further selling the well on or before 31 March 1997. $4,000 abandonment deposit required if not sold. Deposit is outstanding and EUB is pursuing payment.
Well No. 23 (non producing)	EUB inactive well audit. Abandonment Order No. AD 96-xx issued (closure and abandonment). Alleged potential sale to Small Co#6. Subsequent transfer application to Small Co#9. Well transferred to Small Co#9. Abandonment order rescinded.

	GROUP D: PRE-EXISTING ABANDONED WELLS
Well No. 24	Site reclamation certification is still outstanding. AEP sent reclamation notice letter. AEP to follow up on Op Co's commitment to reclaim.
Well No. 25	Site was certified.
Well No. 26	Site reclamation certification is still outstanding. AEP sent reclamation notice letter and a follow up letter. Alleged historical sale to Big Co#6. Transfer application never filed. Big Co#6 accepted responsibility to reclaim the site. AEP to follow up on Big Co#6's commitment to reclaim.
Well No. 27	Site reclamation certification is still outstanding. AEP sent reclamation notice letter and a follow up letter. Alleged historical sale to Big Co#8. Transfer application never filed. Big Co#6 accepted responsibility to reclaim the site. AEP to follow up on Big Co#6's commitment to reclaim.

CASE STUDY No. 2

Preface

The following case study illustrates the activities, operating practices and transactions associated with the evolution of orphan wells. This is not indicative of the industry's practices as a whole but is an example of industry liability management and sale practices that ultimately lead to the creation of orphan wells, pipelines and facilities. Orphan wells become the responsibility of the Abandonment Fund to abandon or in turn to reimburse the EUB for its enforcement costs where the EUB's proactive enforcement has resulted in the creation of orphan wells. The names of the companies involved in this case study have been changed for the purposes of this document.

Issue

Progressive non compliance and debt management issues associated with Gas Co caused the EUB to initiate enforcement action. This action appears to be confirming the insolvency of Gas Co. If the EUB's enforcement action is unsuccessful, the Abandonment Fund under its expanded scope will ultimately assume responsibility for all associated abandonment and reclamation costs. The estimated conservative costs expected as a liability to the Abandonment Fund are:

Well abandonment	$225,000 - $275,000
Pipeline abandonment	$30,000 - $50,000
Facility abandonment	$5,000 - $ 10,000 (assumes some equipment was removed)
Reclamation	$350,000 - $450,000
Total	$610,000 - $785,000

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following non compliance issues within the EUB's jurisdiction

since the original divestiture of this property from Big Co ET AL to Gas Co:

- Gas Co was not providing care and custody over its property,
- Gas Co and its controlling person(s) have breached abandonment orders.
- Gas Co had not complied with isolation packer test requirements.
- Gas Co was not reporting production when producing.
- Gas Co had not complied with its business plan commitment to the EUB.
- Gas Co did not maintain valid crown and freehold mineral leases.
- Gas Co alleged it recently sold the company. The alleged purchaser ceased all negotiations with the EUB after receiving knowledge that all crown and freehold mineral leases had been cancelled by the lessors. No transfers were ever submitted.
- Gas Co's inactive wells and pipelines were not properly suspended.
- Gas Co ceased responding to the EUB.

The EUB was aware of other associated issues as follows:

- Gas Co was not funding the private abandonment trust fund when producing.
- Gas Co was not paying surface lease rental and owes Alberta Treasury - Crown Debt approximately $160,000 and an irrigation district $21,300 to date.
- Gas Co was not paying municipal taxes and owes approximately $313,000 and $168,000 respectively to date to two municipal authorities.
- Gas Co was selling its gas through a custom processor's gas plant. Processing fees of approximately $200,000 were not paid. The gas plant has since been decommissioned and removed. Therefore, a sales point for Gas Co gas no longer exists.
- Gas Co has not complied with Land Reclamation Division, Alberta Environmental Protection's request for a reclamation plan.
- Gas Co has not responded to public complaints.
- Gas Co has other creditors.
- Gas Co ownership has changed three times since its original incorporation. The last ownership change is in dispute.

Background

Gas Co was initially incorporated to acquire property from Big Co ET AL in October 1991. The property originally consisted of 117 shallow gas wells plus associated pipelines, processing facilities and lease road infrastructure. The majority of the wells were drilled and completed by Big Co ET AL in the period 1977 to 1979. Big Co ET AL produced the property until selling it to Gas Co. When last operated by Gas Co, the few remaining producing wells had production rates of IO MCF/Day or less. Gas Co's ownership has changed hands three times since the original owner. Gas Co has always been 100% owned by the respective individual shareholder, There are currently 89 non abandoned wells to be abandoned along with the associated pipelines and facilities. Site reclamation is outstanding.

The property has a private abandonment/reclamation trust fund that was created and funded by Big Co ET AL as a condition of the original sale of the property to Gas Co. The trust has been conveyed each time Gas Co's ownership was sold and the trust remains in full force and effect. Given Gas Co's apparent insolvency, the trustee has voluntarily commenced proceedings to liquidate the trust and disperse funds to the EUB as the named beneficiary of the trust. The trust fund contains approximately $200,000. The EUB intends to apply these funds to Gas Co's abandonment debt to the EUB. However, one of the partners of Big Co ET

AL has requested that the trust fund be split into two parts, one for abandonment ($100,000) and one for reclamation ($100,000), given that the trust was created to fund both activities. The partner notes the different regulatory jurisdiction and statutory requirements applicable for each activity. The partner's concern remains outstanding at the time of writing this case study and will require further resolution.

Status

The EUB is currently enforcing the outstanding abandonment orders by abandoning the wells, pipelines and associated facilities. The EUB will pursue civil debt enforcement against Gas Co and its controlling person (s). If the EUB is unsuccessful in recovering its costs due to the insolvency of Gas Co and its controlling person(s), the EUB will invoice the Abandonment Fund for reimbursement of its costs. The EUB's civil debt enforcement litigation will establish the insolvency of Gas Co and in turn demonstrate to the Fund Advisory Committee that Gas Co is an orphan company. Salvage value available to offset the abandonment costs will be minimal given that one of the previous owners of Gas Co had pulled all the tubular goods from the wells prior to selling Gas Co to the next owner. Alberta Environmental Protection, Land Reclamation Division has requested reclamation schedules from Gas Co and will follow up on the reclamation enforcement and site certification.

Gas Co alleged that it stopped responding to the EUB because it had been sold to #Co effective 30 August 1996. A condition of the sale was that the president of Gas Co had to continue on as president and sole shareholder until 31 March 1997. However, the president was to remain silent and not be involved in Gas Co's operation by #Co. #Co ceased responding to the EUB after receiving knowledge that all crown and freehold mineral leases had been cancelled by the lessors. No purchase and sale agreement or working interest ownership regarding #Co was ever made available to the EUB by either party.

Key Messages

The following key messages from this case study identify the essential elements surrounding the operating practices leading to orphan wells.

> NOTE: This case study evolved in advance of the implementation of the current orphan prevention processes and was typical of the transactions that were taking place. Big Co ET AL did responsibly address the original sale abandonment liability by creating the trust fund. Current EUB transfer requirements are directed towards addressing multiple sales which result in a progressive reduction of the asset value of a property without the appropriate liability protection (abandonment deposits) being put in place.

- There are a number of first time well licensees that are relatively unsophisticated in the industry and have limited understanding of the obligations and risks associated with holding a well licence.
- Some licensees have inadequate financial resources to meet future well abandonment liabilities. In some cases, the licensee does not recognize that such a responsibility exists.
- Abandonment liabilities associated with marginally economic properties changing hands are often ignored or addressed only through discounting the purchase price.
- The liability to asset ratio is not managed effectively to reduce liability over time as the asset value of the property declines. Control of lifting and operating costs are not managed effectively.

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